

105TH CONGRESS  
2D SESSION

# H. R. 3329

To amend the Internal Revenue Code of 1986 to expand certain enterprise zone incentives applicable to portions of the District of Columbia and to provide for individuals who are residents of the District of Columbia a maximum rate of tax of 15 percent on income from sources within the District of Columbia.

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## IN THE HOUSE OF REPRESENTATIVES

MARCH 4, 1998

Ms. NORTON introduced the following bill; which was referred to the  
Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to expand certain enterprise zone incentives applicable to portions of the District of Columbia and to provide for individuals who are residents of the District of Columbia a maximum rate of tax of 15 percent on income from sources within the District of Columbia.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “District of Columbia  
5       Economic Recovery Act”.

1 **SEC. 2. MODIFICATIONS TO ENTERPRISE ZONE BENEFITS**  
2 **AVAILABLE WITH RESPECT TO THE DISTRICT**  
3 **OF COLUMBIA.**

4 (a) ENTIRE DISTRICT OF COLUMBIA TREATED AS  
5 EMPOWERMENT ZONE.—

6 (1) IN GENERAL.—Subsection (a) of section  
7 1400 of the Internal Revenue Code of 1986 (relating  
8 to establishment of DC Zone) is amended to read as  
9 follows:

10 “(a) DESIGNATION.—For purposes of this title—

11 “(1) the District of Columbia—

12 “(A) is hereby designated as the District  
13 of Columbia Enterprise Zone, and

14 “(B) shall be treated as an empowerment  
15 zone designated under subchapter U, and

16 “(2) the terms ‘District of Columbia Enterprise  
17 Zone’ and ‘DC Zone’ mean the District of Colum-  
18 bia.”

19 (2) CONFORMING AMENDMENTS.—

20 (A) Section 1400 of such Code is amended  
21 by striking subsections (b) and (c) and by re-  
22 designating subsections (d), (e), and (f) as sub-  
23 sections (b), (c), and (d), respectively.

24 (B) Subsection (b) of section 1400 of such  
25 Code, as redesignated by subparagraph (A), is  
26 amended to read as follows:

1       “(b) SPECIAL RULE FOR APPLICATION OF EMPLOY-  
 2       MENT CREDIT.—In the case of the DC Zone, section 1396  
 3       (relating to empowerment zone employment credit) shall  
 4       be applied by substituting ‘20’ for ‘15’ in the table con-  
 5       tained in section 1396(b). The preceding sentence shall  
 6       apply only with respect to qualified zone employees, as de-  
 7       fined in section 1396(d), determined by treating no area  
 8       other than the DC Zone as an empowerment zone or en-  
 9       terprise community.”

10               (C) Paragraph (2) of section 1400(d) of  
 11               such Code, as redesignated by subparagraph  
 12               (A), is amended by striking “the census tracts  
 13               referred to in subsection (b)(1) as an enterprise  
 14               community” and inserting “the enterprise com-  
 15               munity in the District of Columbia”.

16               (D) Section 1400B of such Code is amend-  
 17               ed by striking subsection (d) and by redesignat-  
 18               ing subsections (e), (f), and (g) as subsections  
 19               (d), (e), and (f), respectively.

20               (E) Paragraph (1) of section 1400B(e) of  
 21               such Code is amended by striking “section  
 22               1400(e)” and inserting “section 1400(c)”.

23       (b) CAPITAL GAINS EXCLUSION AVAILABLE FOR AS-  
 24       SETS HELD MORE THAN 2 YEARS.—

1           (1) IN GENERAL.—Subsection (a) of section  
2       1400B of such Code is amended by striking “5  
3       years” and inserting “2 years”.

4           (2) CONFORMING AMENDMENT.—Paragraph (7)  
5       of section 1400B(b) of such Code is amended—

6                   (A) by striking “5-YEAR” in the heading  
7                   and inserting “2-YEAR”, and

8                   (B) by striking “5-year” in the text and  
9                   inserting “2-year”.

10       (c) MODIFICATIONS TO DEFINITION OF DC ZONE  
11       BUSINESS.—Subsection (c) of section 1400B of such Code  
12       is amended to read as follows:

13       “(c) DC ZONE BUSINESS.—For purposes of this sec-  
14       tion—

15               “(1) IN GENERAL.—The term ‘DC Zone busi-  
16       ness’ means any entity which is an enterprise zone  
17       business (as defined in section 1397B), deter-  
18       mined—

19                   “(A) after the application of section  
20       1400(c),

21                   “(B) without regard to subsections (b)(1)  
22       and (d)(2)(B) of section 1397B, and

23                   “(C) by treating no area other than the  
24       District of Columbia as an empowerment zone  
25       or enterprise community.

1           “(2) SPECIAL RULE FOR BUSINESSES HOLDING  
2           INTANGIBLES.—Paragraph (4) of section 1397B(d)  
3           shall not apply in determining whether a business is  
4           a DC Zone business if—

5                   “(A) at least 80 percent of the employees  
6                   of such business are residents of the District of  
7                   Columbia, and

8                   “(B) at least 50 percent of the wages (as  
9                   defined by section 3401(a)) paid by such busi-  
10                  ness are paid to residents of the District of Co-  
11                  lumbia.”

12          (d) EFFECTIVE DATE.—The amendments made by  
13          this section shall take effect as if included in the amend-  
14          ments made by section 701 of the Taxpayer Relief Act  
15          of 1997.

16   **SEC. 3. LIMITATION ON INCOME TAX IMPOSED ON INDIVID-**  
17                   **UALS WHO ARE RESIDENTS OF THE DISTRICT**  
18                   **OF COLUMBIA.**

19          (a) IN GENERAL.—Subchapter A of chapter 1 of the  
20          Internal Revenue Code of 1986 (relating to determination  
21          of tax liability) is amended by adding at the end the fol-  
22          lowing new part:

23    **“PART VIII—LIMITATION ON TAX IMPOSED ON**  
24    **RESIDENTS OF THE DISTRICT OF COLUMBIA**

“Sec. 59B. Limitation on tax.

1 **“SEC. 59B. LIMITATION ON TAX.**

2       “(a) GENERAL RULE.—The net income tax of an in-  
3       dividual who is a resident of the District of Columbia for  
4       the taxable year shall not exceed the limitation determined  
5       under subsection (b) for such year.

6       “(b) LIMITATION.—The limitation determined under  
7       this subsection is the sum of the amounts determined  
8       under paragraphs (1) and (2).

9               “(1) 15-PERCENT RATE OF DISTRICT-SOURCED  
10       INCOME IN EXCESS OF EXEMPTION AMOUNT.—The  
11       amount determined under this paragraph is an  
12       amount equal to 15 percent of so much of District-  
13       sourced income as exceeds the exemption amount.

14              “(2) AVERAGE RATE OF NON-DISTRICT-  
15       SOURCED ADJUSTED GROSS INCOME.—The amount  
16       determined under this paragraph is an amount equal  
17       to the average rate of the non-District-sourced ad-  
18       justed gross income.

19       “(c) DEFINITIONS.—For purposes of this section—

20              “(1) RESIDENT OF DISTRICT OF COLUMBIA.—  
21       An individual is a resident of the District of Colum-  
22       bia for the taxable year if—

23                      “(A) such individual used a residence in  
24                      the District of Columbia as a place of abode  
25                      (and was physically present at such place) for  
26                      at least 183 days of such taxable year, and

1           “(B) such individual files a District of Co-  
2           lumbia income tax return for such taxable year.

3           “(2) NET INCOME TAX.—The term ‘net income  
4           tax’ means—

5           “(A) the sum of regular tax liability and  
6           the tax imposed by section 55 (determined with-  
7           out regard to this section), reduced by

8           “(B) the aggregate credits allowable under  
9           part IV (other than section 31).

10          “(3) EXEMPTION AMOUNT.—The term ‘exemp-  
11          tion amount’ means—

12          “(A) \$30,000 in the case of a joint return  
13          or a surviving spouse,

14          “(B) \$15,000 in the case of—

15               “(i) an individual who is not a mar-  
16               ried individual and is not a surviving  
17               spouse, and

18               “(ii) a married individual filing a sep-  
19               arate return, and

20          “(C) \$25,000 in the case of a head of a  
21          household.

22          “(4) AVERAGE RATE.—The term ‘average rate’  
23          means the percentage determined by dividing—

1           “(A) the sum (determined without regard  
2           to this section) of the taxpayer’s regular tax li-  
3           ability and the tax imposed by section 55, by

4           “(B) the taxpayer’s taxable income.

5       If the percentage determined under the preceding  
6       sentence is not a whole number of percentage points,  
7       such percentage shall be rounded to the nearest  
8       whole number of percentage points.

9           “(5) REGULAR TAX LIABILITY.—The term ‘reg-  
10       ular tax liability’ has the meaning given to such  
11       term by section 26(b).

12       “(d) DISTRICT-SOURCED INCOME.—For purposes of  
13       this section, the term ‘District-sourced income’ means ad-  
14       justed gross income reduced by the sum of—

15           “(1) non-District-sourced adjusted gross in-  
16       come,

17           “(2) net capital gain determined by taking into  
18       account only gains and losses sourced in the District  
19       of Columbia,

20           “(3) the deduction allowed by section 170, and

21           “(4) the deduction allowed by section 163 to  
22       the extent attributable to qualified residence interest  
23       (as defined in section 163(h)).

24       “(e) NON-DISTRICT-SOURCED ADJUSTED GROSS IN-  
25       COME.—For purposes of this section, the term ‘non-Dis-



1 triet-sourced adjusted gross income’ means gross income  
2 of the taxpayer from sources outside the District of Co-  
3 lumbia reduced (but not below zero) by the deductions  
4 taken into account in determining adjusted gross income  
5 which are allocable to such income.

6 “(f) SOURCES OF INCOME.—For purposes of this sec-  
7 tion—

8 “(1) RETIREMENT INCOME AND OTHER INCOME  
9 NOT SOURCED UNDER SUBSECTION.—The source of  
10 any income not specifically provided for in this sub-  
11 section shall be treated as from sources within the  
12 District of Columbia.

13 “(2) PERSONAL SERVICES.—

14 “(A) IN GENERAL.—Compensation (other  
15 than retirement income) for services performed  
16 by the taxpayer as an employee, and net earn-  
17 ings from self-employment (as defined in sec-  
18 tion 1402)), shall be sourced at the place such  
19 services are performed.

20 “(B) SERVICES PERFORMED IN WASHING-  
21 TON-BALTIMORE AREA TREATED AS PER-  
22 FORMED IN THE DISTRICT OF COLUMBIA.—  
23 Services performed in the Washington-Balti-  
24 more area shall be treated as performed in the  
25 District of Columbia.

1           “(C) INDIVIDUALS PERFORMING 80 PER-  
2           CENT OF SERVICES WITHIN WASHINGTON-BAL-  
3           TIMORE AREA.—If, during any taxable year, at  
4           least 80 percent of the hours of service per-  
5           formed by an individual are performed within  
6           the Washington-Baltimore area, all such service  
7           shall be treated for purposes of this paragraph  
8           as performed within the District of Columbia.

9           “(D) WASHINGTON-BALTIMORE AREA.—  
10          For purposes of this paragraph, the term  
11          ‘Washington-Baltimore area’ means the area  
12          consisting of—

13                 “(i) the Washington/Baltimore Con-  
14                 solidated Metropolitan Statistical Area (as  
15                 designated by the Office of Management  
16                 and Budget), and

17                 “(ii) St. Mary’s County, Maryland.

18          “(3) INTEREST.—

19                 “(A) IN GENERAL.—Interest received or  
20                 accrued during the taxable year shall be treated  
21                 as from sources outside the District of Colum-  
22                 bia.

23                 “(B) EXCEPTION FOR SMALL AMOUNTS OF  
24                 NON-DISTRICT-SOURCED INTEREST.—Interest  
25                 which would (but for this subparagraph) be

1 treated as from sources outside the District of  
2 Columbia shall be treated as from sources in  
3 the District of Columbia to the extent the  
4 amount of such interest does not exceed \$400.

5 “(C) EXCEPTION FOR INTEREST PAID BY  
6 DISTRICT OF COLUMBIA BUSINESSES AND RESI-  
7 DENTS.—

8 “(i) BUSINESSES.—In the case of in-  
9 terest paid during a calendar year by a  
10 debtor which was required to file (and  
11 filed) a franchise tax return with the Dis-  
12 trict of Columbia for the debtor’s taxable  
13 year ending with or within the prior cal-  
14 endar year, an amount equal to the D.C.  
15 percentage (as shown on such return) of  
16 such interest shall be treated as from  
17 sources within the District of Columbia.  
18 The preceding sentence shall apply only if  
19 such percentage is furnished to the tax-  
20 payer in writing on or before January 31  
21 of the year following the calendar year in  
22 which such interest is paid.

23 “(ii) OTHERS.—Interest shall be  
24 treated as from sources within the District

1 of Columbia if the interest is paid during  
2 a calendar year by a debtor—

3 “(I) which was required to file  
4 (and filed) an income tax return with  
5 the District of Columbia for the debt-  
6 or’s taxable year ending during the  
7 prior calendar year, and

8 “(II) which is not required to file  
9 a franchise tax return with the Dis-  
10 trict of Columbia for such taxable  
11 year.

12 “(D) SPECIAL RULE FOR DETERMINATION  
13 OF D.C. PERCENTAGE FOR NEW BUSINESSES.—  
14 Interest shall be treated as from sources within  
15 the District of Columbia if the interest is paid  
16 during a calendar year by a debtor which was  
17 required to file (and filed) a franchise tax re-  
18 turn with the District of Columbia for such  
19 debtor’s taxable year ending during such cal-  
20 endar year, but which was not required to file  
21 such a return for such debtor’s prior taxable  
22 year.

23 “(4) DIVIDENDS.—

24 “(A) IN GENERAL.—Dividends received or  
25 accrued during the taxable year shall be treated

1 as from sources outside the District of Colum-  
2 bia.

3 “(B) EXCEPTION FOR SMALL AMOUNTS OF  
4 NON-DISTRICT-SOURCED DIVIDENDS.—Divi-  
5 dends which would (but for this subparagraph)  
6 be treated as from sources outside the District  
7 of Columbia shall be treated as from sources in  
8 the District of Columbia to the extent the  
9 amount of such dividends do not exceed \$400.

10 “(C) EXCEPTION FOR DIVIDENDS PAID BY  
11 CORPORATION ENGAGED IN BUSINESS IN THE  
12 DISTRICT OF COLUMBIA.—In the case of divi-  
13 dends paid during a calendar year by a corpora-  
14 tion which was required to file (and filed) a  
15 franchise tax return with the District of Colum-  
16 bia for the debtor’s taxable year ending during  
17 the prior calendar year, an amount equal to the  
18 D.C. percentage (as shown on such return) of  
19 such dividends shall be treated as from sources  
20 within the District of Columbia. The preceding  
21 sentence shall apply only if such percentage is  
22 furnished to the taxpayer in writing on or be-  
23 fore January 31 of the year following the cal-  
24 endar year in which such dividends are paid.

1           “(5) DISPOSITION OF TANGIBLE PROPERTY.—  
2       Income, gain, or loss from the disposition of tangible  
3       property shall be sourced to the place such property  
4       is located at the time of the disposition.

5           “(6) DISPOSITION OF INTANGIBLE PROP-  
6       PERTY.—

7           “(A) IN GENERAL.—Income, gain, or loss  
8       from the disposition of intangible property shall  
9       be treated as from sources outside the District  
10      of Columbia.

11          “(B) EXCEPTION.— If any portion of the  
12      most recent income received or accrued before  
13      such disposition which was attributable to such  
14      property was from sources within the District  
15      of Columbia, a like portion of the income, gain,  
16      or loss from such disposition shall be treated as  
17      from sources within the District of Columbia.

18          “(7) RENTALS.—Rents from property shall be  
19      sourced at the place where such property is located.

20          “(8) ROYALTIES.—Royalties shall be treated as  
21      from sources outside the District of Columbia.

22          “(9) INCOME FROM PROPRIETORSHIP.—

23           “(A) IN GENERAL.—In the case of a trade  
24      or business carried on by the taxpayer as a pro-  
25      prietorship, income from such trade or business

(other than income which is included in net earnings from self-employment by the taxpayer) shall be treated as from sources outside the District of Columbia.

“(B) EXCEPTION FOR DISTRICT OF COLUMBIA BUSINESSES.—If the taxpayer is required to file (and files) a franchise tax return with the District of Columbia for the taxable year, subparagraph (A) shall not apply to an amount equal to the D.C. percentage of such income.

“(10) INCOME FROM PARTNERSHIPS AND S CORPORATIONS.—

“(A) PARTNERSHIPS.—In the case of a taxpayer who is a partner in a partnership, income from such partnership (other than income which is included in net earnings from self-employment by any partner) shall be treated as from sources outside the District of Columbia.

“(B) EXCEPTIONS.—

“(i) Subparagraph (A) shall not apply to a partnership which was required to file (and filed) a franchise tax return with the District of Columbia for the partnership’s taxable year ending with or within the tax-

1 payer's taxable year to the extent of the  
2 D.C. percentage of the taxpayer's distribu-  
3 tive share of the partnership income.

4 “(ii) Subparagraph (A) shall not  
5 apply to a partnership which was not re-  
6 quired to file a franchise tax return with  
7 the District of Columbia for the partner-  
8 ship's taxable year ending with or within  
9 the taxpayer's taxable year to the extent of  
10 the taxpayer's distributive share of part-  
11 nership income which is not (as determined  
12 under this subsection) from sources outside  
13 the District of Columbia.

14 “(C) S CORPORATIONS.—Rules similar to  
15 the rules of this paragraph shall apply to share-  
16 holders of an S corporation.

17 “(11) INCOME IN RESPECT OF A DECEDENT;  
18 INCOME FROM AN ESTATE.—Income in respect of a  
19 decedent, and income from an estate, shall be  
20 sourced at the place where the decedent was domi-  
21 ciled at the time of his death.

22 “(12) INCOME FROM A TRUST.—Income (other  
23 than retirement income) from a trust shall be treat-  
24 ed as from the same sources as the income of the  
25 trust to which it is attributable.



1       “(g) DEFINITIONS RELATING TO SUBSECTION (f).—

2       For purposes of subsection (f)—

3               “(1) RETIREMENT INCOME.—The term ‘retire-  
4       ment income’ has the meaning given such term by  
5       section 114(b)(1) of title 4, United States Code (de-  
6       termined without regard to subparagraph (I) there-  
7       of).

8               “(2) D.C. PERCENTAGE.—The term ‘D.C. per-  
9       centage’ means the percentage determined by divid-  
10      ing—

11              “(A) the net income taxable in the District  
12              of Columbia (as shown on the original return  
13              for the taxable year), by

14              “(B) total net income from all sources (as  
15              shown on such return).

16      The preceding sentence shall be applied based on  
17      amounts shown on the original applicable District of  
18      Columbia franchise or income tax return.

19      “(h) SECTION NOT TO APPLY TO ESTATES AND  
20      TRUSTS.—This section shall not apply to an estate or  
21      trust.

22      “(i) REGULATIONS.—The Secretary shall prescribe  
23      such regulations as may be necessary or appropriate to  
24      carry out the purposes of this section, including regula-  
25      tions to prevent the abuse of the purposes of this section

1 through the manipulation of the rules of subsection (f) by  
 2 means of personal service corporations or otherwise.”

3 (b) CONFORMING AMENDMENTS.—

4 (1) Paragraph (1) of section 55(c) of such Code  
 5 is amended by adding at the end the following:  
 6 “Such regular tax shall be determined without re-  
 7 gard to section 59B.”

8 (2) The table of parts for subchapter A of chap-  
 9 ter 1 of such Code is amended by adding at the end  
 10 the following new item:

“Part VIII. Limitation on tax imposed on residents of the District  
 of Columbia.”

11 (c) EFFECTIVE DATE.—The amendments made by  
 12 this section shall apply to taxable years ending after the  
 13 date of the enactment of this Act.

14 **SEC. 4. ANNUAL TREASURY STUDY ON IMPACT OF TAX RE-**  
 15 **DUCTIONS FOR RESIDENTS OF DISTRICT OF**  
 16 **COLUMBIA.**

17 (a) IN GENERAL.—The Secretary of the Treasury or  
 18 his delegate shall conduct an annual study of the impact  
 19 of part VIII of subchapter A of chapter 1 of the Internal  
 20 Revenue Code of 1986 (relating to limitation on tax im-  
 21 posed on residents of the District of Columbia) on the  
 22 economy of the District of Columbia. In determining such  
 23 impact, the study shall include an evaluation of changes  
 24 in the following (among others):

1           (1) The number and characteristics of individ-  
2           uals who are residents of the District of Columbia  
3           who claim the benefits provided by such part and  
4           the number and characteristics of such individuals  
5           who choose not to claim such benefits.

6           (2) Investment in the District of Columbia.

7           (3) Capital gain net income of such individuals  
8           determined for property within the District of Co-  
9           lumbia.

10          (4) Tax revenues to the District of Columbia.

11          (5) The number of new businesses in the Dis-  
12          trict of Columbia, the number and size of establish-  
13          ments in the District of Columbia, and the growth  
14          of existing businesses as measured by growth in em-  
15          ployment and taxes payable to the District of Co-  
16          lumbia.

17          (6) The number and characteristics of house-  
18          holds residing in the District of Columbia.

19          (7) The employment and earnings of individuals  
20          who are residents of the District of Columbia.

21          (8) Changes in the characteristics of employ-  
22          ment within the District of Columbia, including the  
23          proportion of jobs in the District of Columbia which  
24          are held by residents of the District of Columbia.

1           (9) Home sales and residential rental activity in  
2           the District of Columbia, by price levels of the prop-  
3           erty involved.

4           (10) Tax structure in the District of Columbia,  
5           including incentives for businesses to operate in the  
6           District of Columbia.

7           (11) The number and characteristics of Federal  
8           income tax filers (by filing and income category)  
9           claiming deductions for charitable contributions,  
10          home mortgage interest, and investment interest.

11          (12) Comparable factors, by jurisdiction, for  
12          other governmental jurisdictions within the Wash-  
13          ington metropolitan statistical area.

14          (b) REPORTS.—The report of each such study shall  
15          be submitted to—

16                (1) the Committee on Ways and Means, and  
17                the Committee on Governmental Reform and Over-  
18                sight, of the House of Representatives, and

19                (2) the Committee on Finance, and the Com-  
20                mittee on Governmental Affairs, of the Senate.

21          (c) BASELINE.—As soon as practical after the date  
22          of the enactment of this Act, the Secretary of the Treasury  
23          or his delegate shall collect baseline data for purposes of  
24          the study under subsection (a).

○